

## FINANCE DIRECTOR/TREASURER'S OFFICE

Fiscal Year 2009

As Assistant Town Manager/Finance Director, I am responsible for the coordination of all financial activities of the Town, managing and coordinating the activities of the Finance Department (Accounting, Assessing, Collections, Treasury), development of operating and capital budgets and appropriate budgetary controls, the disbursement, investment, and management of all funds belonging to the Town in my capacity as Town Treasurer, and for effective financial planning and management of debt and debt policies. I also serve as the primary staff liaison to the Finance Committee, Joint Capital Planning Committee, and the Budget Coordinating Group. I highlight the key issues of the year in addition to my Treasurer's Report.

### ***Facilitation of Community Choices Committee***

In May 2007, voters rejected by a 53-47% margin a \$2.5 million Proposition 2 ½ property tax override to sustain Town, Schools, and Library services. Subsequently, upon the recommendation of the Budget Coordinating Group, the Select Board voted to create a citizen-led process called "Community Voices, Budget Choices" and appointed a committee with the following charge:

- 1. To compile a set of individual budget scenarios, covering the next five years, (FY 10 to FY 15) created by Town, School and Library administrators and responsible committees and boards into a set of composite scenarios for all Town services complete with estimates of required revenues as provided by staff and the Finance Committee.*
- 2. To engage the public in a multi-year financial planning discussion by presenting the set of composite scenarios to the public through public meetings, and otherwise, with the express purpose of eliciting broad public input on long-term preferences for service priorities and levels of service as well as preferences for funding levels and options.*
- 3. To recommend, by the middle of September 2008, one composite scenario to the Budget Coordinating Group, and ultimately the Select Board, School Committee, Library Trustees and Finance Committee, said recommendation to have taken into account broad based community input and can be one of the original scenarios as put forth or it can be a modification of one based on community input.*

I was asked to be the primary staff liaison to the committee. As the committee began its work, the impact of the worst economic recession since the 1930's became evident in the housing and financial markets and the broader economy. In that context, the committee developed general conclusions and specific recommendations in their report of December 2008 that I quote at length below. Their full report is on the Town website. It has served as a tool to seek input from and educate the broader community about the financial and service challenges confronting the Town and as a set of guiding principles for the very difficult budget planning that followed.

- The budget gap for the next 5 years is of such magnitude that substantial cutbacks and restructuring will be required, and revenue increases in some form will also be needed.*
- The FCCC recommends that the Select Board, School Committee and Library Trustees define a core budget to fit within the anticipated revenues.*
- The Committee recognizes that an override will probably be necessary at some point in the next 5 years to sustain even the most essential school and municipal services.*

- *The Committee recommends pursuing economic development, but notes that economic development will have, at best, a moderate financial impact in the next few years.*
- *The Committee recommends that our elected officials pursue a local option meals tax and increased local option lodging tax.*
- *The Committee recommends that the Town increase fees and that some free services become fee based.*
- *The Committee recommends that our elected officials immediately start work to secure increased financial contributions from our three resident institutions of higher education –The University, Amherst College, and Hampshire College – through formal Payment in Lieu of Taxes (PILOT) agreements.*
- *The Committee sees the need to hold personnel costs to a rate of growth in line with projected revenues.*
- *The Committee recommends that our elected officials develop a plan to reduce the Town's unfunded liabilities for pensions and retiree health care.*
- *The Committee recommends that the Select Board look carefully at the money allocated to the Capital budget, with an eye toward possible reallocation of a portion of these funds to other budget areas.*

### ***FY 09 Mid-Year State Aid Cuts***

Due to the rapidly deteriorating economy and resulting decline in state tax receipts, Governor Patrick enacted \$128 million in mid-year “9C cuts” to Lottery and Additional Assistance to cities and towns, including \$978,298 to Amherst, a cut of nearly 10%. To keep the Town’s FY 09 adopted budget in balance, the Town implemented a 3-part strategy: a budget cut of \$462,125 to health insurance via a premium holiday in April (only possible because of the dramatic turnaround in the Town’s self-insured program), applying \$362,198 from an unanticipated Wildwood School roof grant, and an appropriation of \$153,975 at the 2009 Annual Town Meeting from overlay surplus as a replacement financing source. In the spring, Governor Patrick enacted a *second* state aid cut of \$659,034, this time to Chapter 70 school aid, and replaced that cut with federal economic stimulus funds in the form of a “grant” to the school district.

### ***FY 10 Budget Cuts***

For the fiscal year beginning July 1, 2009, state aid to cities and towns was cut dramatically...again. Further cuts totaling approximately \$4 million, or over 20%, were enacted by the state legislature. The adopted FY 10 budget was balanced by a combination of 65% cuts and 35% new revenue or reserves. Using the FCCC Report as a guide, budgets were proposed and adopted that cut deeply to “core service levels,” and the capital budget was reduced by 9%. Cuts from level services totaled \$4.4 million. \$900,000 from Town reserves (free cash) were voted to support the operating budget as one-year “bridge funding” in anticipation of savings from the future closure of Marks Meadow Elementary School (\$700,000) and future annualized receipts from newly adopted local option meals and lodging taxes.

### ***Treasurer’s Report***

The Town’s earnings on investments decreased as interest rates declined sharply in FY 09, ranging from an average of 2.70% in July 2008 to 0.89% in June 2009. Certificate of Deposit (CD) rates decreased from 3.30% early in the year to as low as 2.00% by April 2009. Per Massachusetts General Laws, municipalities are not allowed to invest funds for a period greater than one year. A total of \$461,872 was earned from investment interest, stock and mutual funds in FY 09, a decrease of \$277,352 from the prior fiscal year. The General Fund received \$255,401, the Enterprise Funds received \$89,796, the Community Preservation Fund received

\$20,177, the Stabilization Fund received \$26,062, the Health Insurance Fund received \$44,916, the Worker's Compensation Fund received \$7,614, the Trust Funds received \$9,164, and miscellaneous accounts (CDBG, Gift, Arts Lottery) received \$8,742.

There was one borrowing during FY 09. A short-term Bond Anticipation Note (BAN) in the amount of \$1,445,000 was issued June 19, 2009 with a maturity date of December 16, 2009 for the following projects previously authorized by Town Meeting:

- \$290,000 for construction of athletic fields at the Plum Brook Recreation Area. The Plum Brook Recreation Area portion is a renewal (rollover) of debt principal remaining from the \$500,000 that was originally authorized by Town Meeting. \$210,000 of this debt has been retired over the past four years;
- \$515,000 for exterior improvements to Town Hall is a renewal (rollover) of debt issued in June 2008, a portion of the \$575,000 authorized at a November 2007 Special Town Meeting. The unissued portion of Town Hall debt will likely be issued later in 2009;
- \$420,000 for the Bangs Community Center Roof and HVAC project authorized at the 2008 Annual Town Meeting;
- \$220,000 for portable classrooms authorized at a November 2007 Special Town Meeting and the 2008 Annual Town Meeting, a portion of the \$300,000 that was authorized. Most of the remaining balance will likely not be needed.

The Town received a favorable net interest rate of 1.19% via competitive bid. The Town is planning a long-term permanent bond issue in December 2009 when these BANs mature and may also refinance other callable long term debt if market conditions warrant.

The Treasurer's Office manages the tax titles for the Town. When a taxpayer becomes delinquent in paying real estate taxes or other local charges that constitute liens on real estate, the Town has statutory authority to take title to the taxpayer's property and, subsequently, to undertake proceedings to foreclose on the property by petition to the Land Court. The property owner can redeem the property by paying the unpaid taxes, with interest and other charges. Seventeen new properties were placed in tax title accounts during FY 09, totaling \$61,952. There were 15 properties removed from tax title accounts during the year. Payments totaled \$88,838. Additional interest collected totaled \$17,006. As of June 30, 2009, there were 58 parcels with a balance of \$380,722 outstanding. Tax possessions totaled \$68,288 on June 30, 2009.

Clause 41A allows income-eligible elderly homeowners to defer payment of their real estate taxes until the owner or his/her estate sells the home. This option is intended to help make it financially possible for qualifying citizens to continue living in their homes. The maximum allowed deferral of taxes equals one-half of the assessed value of the property. The interest rate on deferred tax is 4% until the property is sold or the eligible taxpayer is deceased. The interest rate then increases to 16% until payment is received. On the recommendation of staff, the 2006 Annual Town Meeting voted to accept a new provision in state law that allows the Town to reduce the rate of interest that accrues on property taxes deferred by eligible seniors under G.L. c. 59 §5, Clause 41A from 8% to 4%, with such reduced rate to apply to taxes assessed for the

fiscal year beginning July 1, 2006. As of June 30, 2009, there were eight properties with deferred taxes, amounting to \$98,106.

***In Appreciation***

I want to acknowledge the hardworking employees in the Finance Department who perform the necessary, critical, and often thankless work in the Accounting, Tax Collection, Assessing, and Treasury functions in support of Town services. Despite a reduction in staff of 20% over the past several years, our department has embraced technology to deliver better and more efficient service to the public. Our success has been acknowledged by our independent auditors who report timely and accurate financial reporting, strong cash management and investment practices, and sound internal controls. Other indicators include our strong tax collection rates (regularly in excess of 98% annually) and accurate and equitable property tax assessments with abatements well below 1%.

Submitted by,

John P. Musante  
Assistant Town Manager/Finance Director